The market roller coaster

SARWAR A CHOWDHURY

AMRAN HOSSAIN

An unusual sight on the streets of Motijheel. With the Dhaka stock exchange losing points fast, regulators suspended trading on January 23-24.

THE last week was a testing period for investors, individual and institutional alike -- a test of patience. Some cracked under pressure while many others still stand on the sidelines, waiting to make a move. The secondary market was clad in drama and with the market index dropping steeply.

With the situation under the surveillance of the government and regulatory bodies, investors are wishing upon a shooting star for the twin bourses to return to normal.

The General Index of the Dhaka Stock Exchange rose to its highest peak at 8,918 points on December 5 last year. Since then, the market went into a correction phase, accompanied with street demonstration by retail investors and also occasional rises in share prices. The trend continued to first week of this month.

The downtrend turned into a deep crisis from the second week of the new-year. It started on January 9 when the market index suffered 600 points, or 7.75 percent. The fall prompted the prime minister on the same day to ask authorities concerned to find the reasons behind market instability.

The finance minister next sat with the central bank and Securities and Exchange Commission (SEC). Later at a press briefing that night, the minister said the government would not tolerate any vandalism or demonstration on the streets over share price drops. The minister's warning, instead of sending out a positive message, broke investors' hope and confidence, which was reflected the next day.

The regulatory measures acted as elixir for the retail investors and the market clocked a record 15 percent gain on January 11, with 80 percent of the traded securities remaining without sellers for hours

The regulator stopped share trading only 50 minutes into the opening of transactions on January 10, when prices went into a free fall with the index slumping by 660 points. Thousands of angry investors vandalised cars, blocked roads around the premier bourse and fought a violent battle with the police.

The violence forced SEC to relax or reverse some decisions in a desperate effort to bring back investor confidence. It increased the margin loan ratio to 1:2 from 1:1.5, transferred 14 companies share trade to public market instead of spot market, allowed netting or financial adjustment facilities for non-marginable stocks, and withdrew restrictions on merchant banks' exposure to the stockmarket.

On the same day, the central bank also eased some restrictions on commercial banks for investing in the capital market in response to the stock slump. Bangladesh Bank (BB) extended the deadline on banks in recovering industrial credit that was diverted into the stockmarket, and said it will be done on a case-by-case basis.

The regulatory measures acted as elixir for the retail investors and the market clocked a record 15 percent gain on January 11, with 80 percent of the traded securities remaining without sellers for hours. But market experts said the turnaround was possible as a result of "life support" given by the government and regulators.

The market continued to rise for a second day on January 12, but not abnormally. However, on that day, Mansur Alam, a member of SEC, stepped down in the face of allegations of his involvement in stockmarket manipulation.

The next few days went on as usual, with ups and downs in stock prices. On January 18, the bear woke again and share trading on the twin bourses stopped 1 hour and 20 minutes ahead of schedule. The retail investors took to the streets again.

SEC held an emergency meeting with the Dhaka and Chittagong bourses. This time, it came up with a set of measures to arrest the downtrend. It revised the members' margin rule, increasing the free limit of stockbrokers' and dealers' exposure to the market. It also decided to set a timeframe for the denomination of face value of those listed companies that are yet to change their stocks face value.

Before the start of trade the next day, the regulator, as prescribed by the government, put a circuit breaker on share index, to protect against a big rise or fall. The circuit breaker halted share trade on both bourses one and a half hours into opening. Trade suspension yet again sent thousands of angry investors to the streets in Motijheel.

The next day, January 20, was a dreadful day for the Bangladesh stockmarket. The share index breaker failed to prevent a free fall in stock prices. The Dhaka stock index took a nosedive of 600 points within just five minutes into opening of trade, even before the circuit breaker could put a stop to trade on the twin exchanges. Although the circuit breaker was meant to stop trading after the general index of the Dhaka bourse went down by 225 points, the breaker's manual operating system failed to do so.

Not only that, all efforts taken by either SEC or the government failed to have a positive impact on the confidence of the retail investors, forcing many into panic sales.

The SEC, with government instructions, announced that the market would be closed on January 23. The finance minister would sit with market stakeholders, SEC and central bank high ups to find a way to restore investor confidence and also to bring back normalcy in the secondary market.

After the meeting, the government took some decisions on the share market, including formation of a committee to probe into the recent market crash and withdrawal of share index breaker. With work on the stock exchange still underway, trading was suspended for another day, January 24.

Trade resumed on Tuesday, and the index is showing signs of recovery.

A market expert said it was too soon to comment on the state of the market, which observed an upward trend in the last couple of days.

"Unless a settlement cycle period is completed, no one can make concrete comments on the market. However, it can be said that the investors are overcoming the panicky situation or the fears they got during the debacle. But, the risk period is yet to be gone," said Yawer Sayeed, managing director of AIMS of Bangladesh, an asset management company.

"Many investors are still on the sidelines, in pause, observing the markets' movement," he said, adding that the retail investors are recovering from their nervousness, as the index and turnover are on the rise.

The government steps and the regulatory measures, especially at administrative levels, showed that they are keen to stabilising the market, he said.

The next week may be better to analyse the market trends, Sayeed added.

sarwar@thedailystar.net

Regulators must not panic

STAR BUSINESS REPORT

AMRAN HOSSAIN

Angry investors flee as the police uses force to calm violence.

REGULATORS must not panic because of an overdue correction in the stockmarket, said a policy analyst.

"Global experience indicates that once stock markets get into a bubble phase, there is very little that regulators or policymakers can do to stabilise it," said Ahsan H Mansur, executive director of Policy Research Institute.

Regulators and policymakers should have been consistent in taking measures, Mansur said. "The SEC (Securities and Exchange Commission) has showed a clear lack of consistency."

The former official of the International Monetary Fund said: "The recent tumble in the index should be seen as the inevitable outcome of irrational exuberance on the part of market participants. What worries me is not the correction, but the panic created by both investors out on the streets and at the level of policymakers."

Market swings have been seen in major markets in the US (NASDAQ in particular) and Japan, and in emerging markets, like China and the Gulf Co-operation Council countries, in recent years. A broad and deep market in the US did not prevent the NASDAQ index from crossing the 5,000 level and crashing back to the 1,600 level in a matter of weeks. Japan's experience is even more pathetic, with the Nikkei crossing the 33,000 level in 1991, and following the crash, is currently flirting with the 10,000 level after almost 20 years.

"More recently we have seen the Shanghai stock index crossing the 7,000 level, crashing down to well below 3,000 after the correction. We saw an even worse development in Bangladesh in 1996 when the index dropped from 3,600 to below 800."

The Bangladesh stockmarket has been buoyed for long by irrational exuberance among investors.

"People have behaved irrationally, well beyond what could be justified by economic fundamentals," he said.

"In the stock market, almost every investor thinks I am a smart guy and the rest of the people are fools. I will make money before getting out and nobody would know. But at one point, there will be a shortage of chairs like in a musical-chair game, and one has to leave. And this is how the circle narrows."

Mansur likened the stock market bubble formation with a fire that needs fuel to keep on burning. Here liquidity is the fuel. "But at some point, funds dry up and the ultimate result is a market crash because all support is gone."

"Whenever there is a bubble, there is an unusual expansion of liquidity." Since the supply of liquidity cannot last for ever, the bubble bursts, which is inevitable. In the mess, ordinary people get caught. Mansur said: "I had advised my relatives and friends to get out of the market when the DSE index was in the range of 7,500-8,500." "But they did not listen to me because the party was going on," he said. "Prolonging the correction process does not serve the market or the investors, it only prolongs the uncertainly," Mansur concluded.

Ahsan H Mansur

'The market was irrational and still is. The market crash is quite common across the globe and Bangladesh is no exception'